National Energy Board
Office national de l'énergie

Reasons for Decision

Centra Transmission Holdings Inc.

RHW-3-2005

March 2006

Tolls

Canada

National Energy Board
Office national de l'énergie

NewsRelease

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23 March 2006

NATIONAL ENERGY BOARD APPROVES CENTRA TRANSMISSION HOLDINGS INC.'S APPLICATION TO INCREASE TOLLS ON ITS PIPELINE SYSTEM

CALGARY — The National Energy Board (NEB) today approved an application by Centra Transmission Holdings Inc. (CTHI) for increased tolls for transportation service on its pipeline system.

In its Reasons for Decision, the NEB approved CTHI's proposed Total Cost of Service for 2005, subject to a reduction of Income Taxes that will occur because of the Board's decision not to allow CTHI to collect the income tax component of its proposed surcharge as part of its demand toll, but rather through the surcharge.

The NEB also found the cost of capital applied for by CTHI to be reasonable, and approved a rate of return on common equity of 12.5 percent and an equity component of 40 percent.

The NEB approved CTHI's proposed surcharge methodology for recovering the outstanding balance in its fuel gas deferral account, but denied the recovery of costs associated with line heaters in the deferred balance.

The NEB also approved CTHI's projected costs for its integrity management program and directed CTHI to begin discussions with its shippers to address shippers' concerns expressed during the hearing.

The NEB directed CTHI to file revised schedules and final toll calculations, including specific surcharges to shippers, for final approval by the Board.

CTHI filed its application for increased tolls on 5 August 2005. On 25 November 2005, the Board issued Hearing Order RHW-3-2005 initiating a written hearing process. Final oral argument, conducted by teleconference, occurred on 26 January 2006.

The NEB is an independent federal agency that regulates several aspects of Canada's energy industry. Its purpose is to promote safety and security, environmental protection, and efficient energy infrastructure and markets in the Canadian public interest, within the mandate set by Parliament in the regulation of pipelines, energy development and trade.

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This news release and the Reasons for Decision are available on the Board's Internet site at www.neb-one.gc.ca under *What's New*!

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National Energy Board

Reasons for Decision

In the Matter of

Centra Transmission Holdings Inc.

Application for revised tolls effective
1 August 2005

RHW-3-2005

March 2006

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Table of Contents

List of Figures

List of Tables

List of Appendices

Abbreviations

A&G	Administrative and General
Abitibi	Abitibi Consolidated Company of Canada
Aquila	Aquila Networks
Board	National Energy Board
Boise	Boise White Paper, L.L.C.
Bps	Basis points
CPMI	Centra Pipelines Minnesota Inc.
CTHI	Centra Transmission Holdings Inc.
Deloitte	Deloitte & Touche
EFG	Energy Fundamentals Group L.P.
FERC	U.S. Federal Energy Regulatory Commission
GPUAR	*Gas Pipeline Uniform Accounting Regulations*
IGUA	Industrial Gas Users Association
Integrity Program	CTHI's Pipeline Integrity Management Program
MDQ	Maximum Daily Quantity
Memorandum of Guidance	Board's Memorandum of Guidance for the Regulation of Group 2 Companies dated 6 December 1995
NEB or Board	National Energy Board
NEB Act or Act	*National Energy Board Act*
O&M	Operating and Maintenance
ROE	Rate of return on common equity
TransCanada	TransCanada PipeLines Limited
Union	Union Gas Limited
Westcoast	Westcoast Energy Inc.
Westcoast Power	Westcoast Power Inc.

Recital and Appearances

IN THE MATTER OF the *National Energy Board Act* (Act) and the Regulations made thereunder; and

IN THE MATTER OF an application filed by Centra Transmission Holdings Inc. (CTHI) under File ATT AFT CTH 001 / 4200-C293-1 for approval of tolls pursuant to Part IV of the Act that CTHI shall charge for transportation services provided on its pipeline effective 1 August 2005;

IN THE MATTER OF Hearing Order RHW-3-2005;

Examined by way of written submissions, and oral argument heard in Calgary, Alberta on 26 January 2006;

BEFORE:

D.W. Emes	Presiding Member
J.S. Bulger	Member
P. McCunn Miller	Member

Appearances

G. Cameron	Centra Transmission Holdings Inc.
D.M. Brown	Abitibi Consolidated Company of Canada
P.J. Joyce	Aquila Networks
R. Sirrett	Boise White Paper, L.L.C.
P. Fournier	Industrial Gas Users Association
A. Ross	National Energy Board

Glossary of Terms

Application	Application filed by Centra Transmission Holdings Inc. on 5 August 2005 for new tolls effective 1 August 2005.
Basis point	One-hundredth of a percentage point, used in reference to interest rates or rates of return on equity.
Business risk	The risk attributed to the nature of a particular business activity (as distinct from financial risk). For pipelines, it typically includes supply, market, regulatory, competitive, and operating risks.
Capital structure	The way in which a business is financed; generally expressed as a percentage breakdown of the types of capital employed.
Cost of service	The total cost of providing service, including operating and maintenance expenses, depreciation, amortization, taxes and return on rate base.
Deferral Account	For regulatory purposes, generally, a type of account used to record revenues and expenses held in abeyance for future disposition by the regulator.
Financial risk	The risk inherent in a company's capital structure; financial risk increases as the proportion of debt increases in relation to shareholders' equity.
Investment risk	The total of a company's business risk and financial risk.
Market risk	The business risk that stems from the overall size of the market and the market share that a pipeline is able to capture.
Operating risk	The risk to the income-earning capability that arises from technical and operational factors.
Order TGI-01-2005	An Order issued by the Board establishing CTHI's tolls on an interim basis effective 9 September 2005.
Rate Base	The amount of investment on which a return is authorized to be earned.
Regulatory risk	The risk to the income-earning capability of the assets that arises due to the method of regulation of the company.
RH-2-2004 Phase II	NEB Proceeding on TransCanada's 2004 Mainline Tolls and Tariff Application (Phase II Reasons for Decision dated April 2005).
RH-2-94	NEB Multi-Pipeline Cost of Capital Proceeding (Reasons for Decision concerning cost of capital dated March 1995).

RH-2-94 Formula	Formula used to determine the rate of return on common equity for certain NEB-regulated pipelines, established in the RH-2-94 Proceeding, as amended to eliminate rounding.
RH-2-94 ROE	The ROE established annually by the Board pursuant to the RH-2-94 Formula.
Station 43	A compressor station on TransCanada's Mainline located near Spruce, Manitoba.
Test Year	The operating period selected to evaluate the cost of service and whether proposed rates are adequate to cover costs without providing an excess return. In CTHI's case, the Test Year is the calendar year 1 January 2005 to 31 December 2005.
Toll	The price charged by a pipeline company for the use of its facilities.

Chapter 1

Introduction

1.1 Background

Centra Transmission Holdings Inc. (CTHI) owns and operates the Canadian portion of a natural gas pipeline running from Spruce, Manitoba (TransCanada PipeLines Limited's Station 43) to International Falls, Minnesota (see Figure 1-1). CTHI was purchased from Westcoast Energy Inc. (Westcoast) carrying on business as Duke Energy Gas Transmission by the Energy Fundamentals Group L.P. (EFG) effective 25 November 2003. Prior to the purchase, CTHI was owned and operated by Westcoast. However, expenses attributable to managing the pipeline were incurred by Union Gas Limited (Union), a subsidiary of Westcoast.

On 5 August 2005, CTHI filed an application with the National Energy Board (Board) pursuant to Part IV of the NEB Act seeking increased tolls effective 1 August 2005 (Application). CTHI's tolls were last revised effective 1 May 1995. Following the filing of its Application, CTHI undertook a dialogue with its shippers to address their questions with respect to the Application. CTHI also responded to a series of informal information requests received from individual shippers in connection with the filing.

Correspondence was received by the Board on behalf of Abitibi Consolidated Company of Canada (Abitibi) and Boise White Paper, L.L.C. (Boise), dated 31 August 2005 and 2 September 2005 respectively. Both Abitibi and Boise requested that CTHI's tolls remain at their pre-application level until interested shippers had time to request additional information from CTHI and examine the Application in more detail.

In a letter dated 6 September 2005, CTHI requested that its applied-for tolls become effective as interim tolls until customers were fully satisfied with their respective evaluations and inquiries.

On 9 September 2005, the Board sought comments from interested parties on CTHI's Application and issued Order TGI-01-2005 setting CTHI's existing tolls as interim effective 9 September 2005.

Comments were received from Boise and Abitibi on 13 and 14 October 2005 respectively. In their comments, Boise and Abitibi requested that the Board initiate a more formal process to deal with CTHI's Application.

On 21 October 2005, CTHI submitted comments contending that the process to date had afforded all parties an opportunity to review CTHI's Application, seek responses to informal information requests and submit comments to the Board. As a result, CTHI recommended that its proposed tolls be approved by the Board effective 9 September 2005. CTHI also stated that should the Board decide a further process is required, it should be a written process.

On 7 November 2005, the Board issued a letter indicating that it had decided to initiate a written process to resolve the issues associated with CTHI's Application. However, prior to finalizing the written process, the Board invited parties to participate in a teleconference call for an exchange of views on the steps to be included in the written process, any concerns or questions that parties may have had with the Board's processes and procedures, and the issues to be adjudicated by the Board.

On 21 November 2005, representatives of Abitibi, Aquila Networks (Aquila), Boise, CTHI, and the Board participated in the procedural teleconference. Participants were able to agree on a suitable timetable for the written process to address CTHI's Application. Parties expressed no concerns with respect to the Board's processes and procedures and suggested no changes to the issues to be adjudicated by the Board.

On 25 November 2005, the Board issued Hearing Order RHW-3-2005, setting out the procedures to be followed in the hearing. The Board noted that there were opportunities in the Hearing Order to abbreviate the proceeding should circumstances suggest that it would be fair and reasonable to do so. Given that no intervenor submitted written evidence, in accordance with paragraphs 19 and 21 of the Hearing Order, final argument in respect of the RHW-3-2005 proceeding was heard orally by teleconference on 26 January 2006. At that time, CTHI requested that the Board keep the evidentiary record of the proceeding open in order to enable CTHI to file revised information with respect to a renegotiated Union gas management contract.

On 1 February 2006, in order to ensure it had a proper evidentiary basis upon which to make its decisions, the Board submitted a further information request to CTHI seeking additional evidence regarding the manner in which interest had been calculated by CTHI on deferral account balances relating to compressor fuel cost, as well as a reconciliation of past deferral account balances. The Board also placed a copy of CTHI's 1992 Test Year application, dated 16 December 1991, on the evidentiary record and provided procedural direction regarding the opportunity for parties to supplement their argument in light of the additional evidence expected to be filed by CTHI on the compressor fuel cost and Union gas management contract matters.

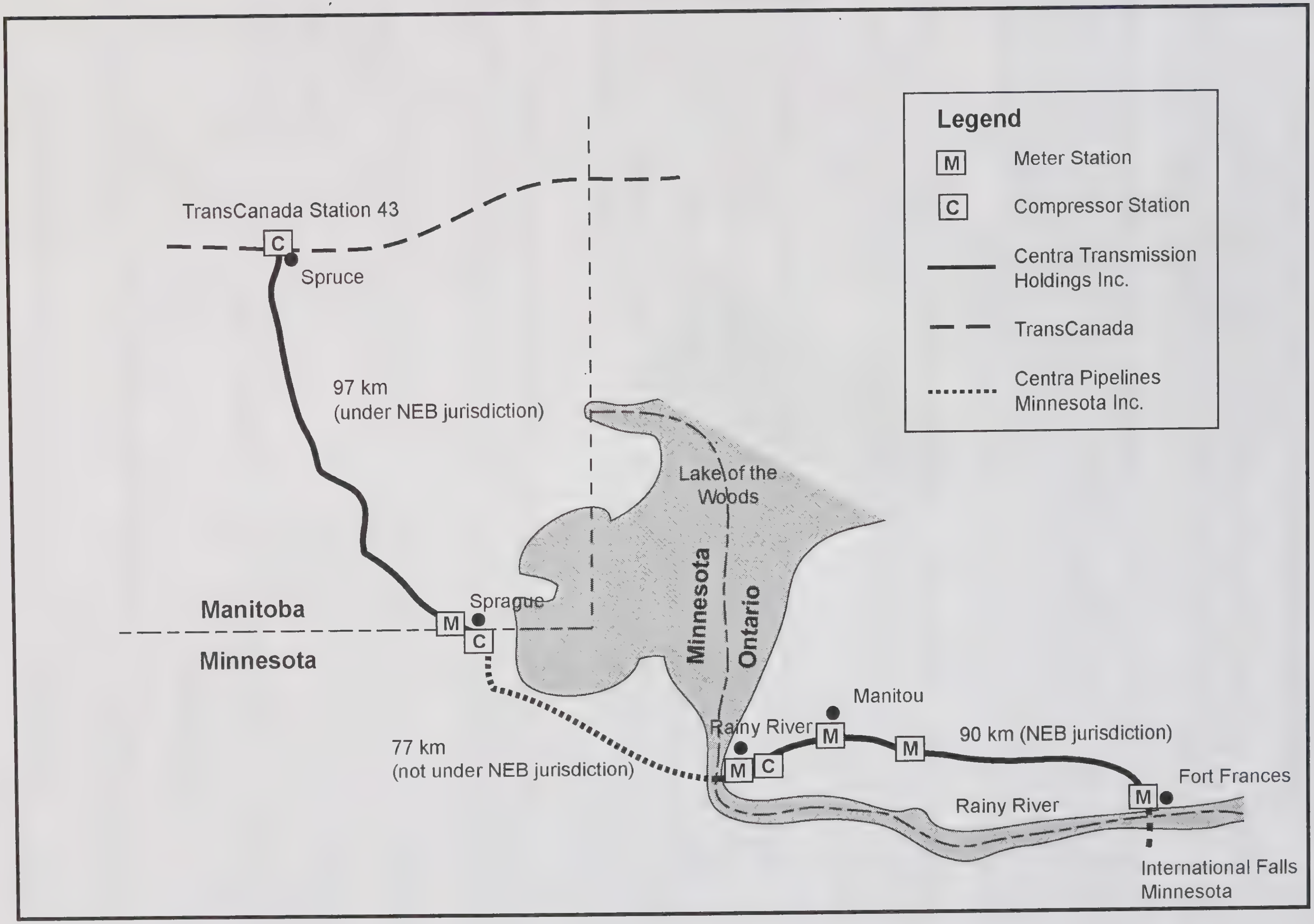
By letter dated 6 February 2006, CTHI filed its response to the Board's further information request as well as revised cost of service schedules updated to reflect cost savings associated with a new Gas Management Service Agreement signed with Union, which CTHI also provided.

Pursuant to the Board's procedural direction of 1 February 2006, Abitibi and Boise provided written submissions in the nature of additional final argument on the compressor fuel cost and Union gas management contract issues in letters dated 7 and 9 February 2006 respectively.

CTHI submitted its reply submission with regard to the supplementary submissions of Abitibi and Boise on 16 February 2006.

Effective 3 March 2006, Ms. Patricia McCunn Miller, part of the three member Board Panel for the RHW-3-2005 hearing, resigned from the NEB. Pursuant to subsection 3(4) and paragraph 16(2)(b) of the NEB Act, the decision on the Application has been taken by the remaining members of the Board Panel.

Figure 1-1
Centra Transmission Holdings Inc.



1.2 Overview of Application

CTHI initially sought approval of revised tolls effective 1 August 2005. However, on 21 October 2005, CTHI requested that its proposed tolls become effective 9 September 2005, the same date its existing tolls were made interim by Board Order TGI-01-2005.

In its Application, CTHI used its fiscal year 2005 forecast as its Test Year in the determination of the proposed rates. The Application included information pertaining to cost of service items, rate base, cost of capital, and tolls. CTHI explained that its forecasted financial information for the 2005 Test Year was based upon six months of actual and six months of forecast data. CTHI noted that it reports its financial information on a calendar year basis. CTHI also noted that its existing tolls had remained constant and unchanged since April 1995.

On 6 February 2006, CTHI provided cost of service schedules revised in connection with the finalization of the Union gas management service agreement (see section 4.2 for a further discussion of this issue). The revised tolls sought by CTHI to be effective 9 September 2005 are shown in the table below.

CTHI's Application also included a request to impose a temporary fixed fuel surcharge on all firm shippers to allow for the recovery of a deferral account balance of $250,608 for excess fuel costs incurred by CTHI. This amount represents the shortfall between what CTHI actually paid for fuel gas and what it receives toward its fuel gas costs in commodity tolls. CTHI proposed that the $250,608 shortfall be allocated amongst its shippers based on the Maximum Daily Quantity (MDQ) specified in each shipper's contract. The amount allocated to each shipper would then be collected by CTHI through a monthly surcharge in equal installments over the remaining term of the shipper's contract.

CTHI noted that the deferral account balance of $250,608 was determined assuming its new tolls would become effective 1 August 2005 and that it may seek to adjust this account balance to the actual amount outstanding at the date upon which the Board's final decision becomes effective.

Particulars	Demand Toll ($\$/10^3m^3$/Mo.)	Commodity Toll ($\$/10^3m^3$)	Fuel Surcharge ($/Mo.)
Domestic	169.597	1.062	Shipper Specific
Export	169.490	1.062	Shipper Specific

Information above reflects CTHI's revision of 6 February 2006.

1.3 List of Issues

In its Hearing Order RHW-3-2005 dated 25 November 2005, the Board identified, but did not limit itself to, the following issues:

1. the appropriateness of CTHI's rate of return and capital structure;

2. CTHI's System Pipeline Integrity Program (Integrity Program) and the appropriateness of a deferral account;

3. the appropriateness of CTHI's projected Operating and Maintenance Expense and Administrative and General Expense;

4. issues related to fuel gas costs; and

5. other issues related to increases in CTHI's cost of service.

Chapter 2

Cost of Service

CTHI's applied-for amounts for Depreciation Expense, and Taxes other than Income Taxes were not opposed by parties. CTHI's justification for the amounts related to the other cost of service items along with the views of parties and views of the Board are discussed in subsequent Chapters of these Reasons for Decision.

Table 2-1
Comparison of CTHI's Proposed 2005 Cost of Service with its Last Approved Cost of Service in 1995

	2005 Test Year*	1995 Last Approved	Increase (Decrease)
Operating and Maintenance Expense	$938,660	$495,400	$443,260
Administrative and General Expense	328,344	245,900	82,444
Compressor Fuel Expense	427,940	281,300	146,640
Depreciation Expense	410,906	340,032	70,874
Amortization of Deferred Charges	-	(34,500)	34,500
Taxes other than Income Tax	721,307	638,700	82,607
Income Taxes	375,994	78,238	297,756
Return on Rate Base	703,130	859,996	(156,866)
Total Cost of Service	**$3,906,281**	**$2,905,066**	**$1,001,215**

* 2005 figures reflect CTHI's revision of 6 February 2006.

Decision

In the Board's view, the amounts included by CTHI for the 2005 Test Year for Depreciation Expense and Taxes other than Income Tax are reasonable and are therefore approved.

Chapter 3

Rate Base

CTHI applied for an Average Rate Base amount of $7,401,373, which is $1,661,239 or 18.3 percent less than the last approved amount in 1995 of $9,062,612. No party raised any concerns with CTHI's applied-for Rate Base or its components. A comparison of CTHI's applied-for Rate Base and its previously approved Rate Base is shown in Table 3-1 below.

Table 3-1
Comparison of the Proposed 2005 Rate Base with CTHI's Last Approved Rate Base in 1995

	2005 Test Year	1995 Last Approved	Increase/ (Decrease)
Investment in Fixed Assets			
Gross Plant – Beginning of Year	$15,829,832	$14,317,800	$1,512,032
Less Accumulated Depreciation	9,006,790	5,372,852	3,633,938
Net Plant*	6,823,043	8,944,948	(2,121,905)
Gross Plant – End of Year	16,607,332	14,336,800	2,270,532
Less Accumulated Depreciation	9,417,695	5,712,884	3,704,811
Net Plant – End of Year	7,189,637	8,623,916	(1,434,279)
Net Plant – Average for Year	7,006,340	8,784,432	(1,778,092)
Working Capital Requirements			
Cash	130,000	128,030	1,970
Transmission Line Pack and Supplies	121,033	125,000	(3,967)
Prepaid Expenses	144,000	25,150	118,850
Total Working Capital Requirement	395,033	278,180	116,853
Total Rate Base	**$7,401,373**	**$9,062,612**	**($1,661,239)**

* Figures may not agree due to rounding

Decision

The Board finds CTHI's applied-for Rate Base of $7,401,373 for the 2005 Test Year to be reasonable and therefore approves the applied-for amount.

Chapter 4

Operating, Maintenance, Administrative and General Expenses

Table 4-1 provides an analysis of CTHI's applied-for Operating & Maintenance (O&M) and Administrative & General (A&G) Expenses broken down by major expense category in each of the years 2003 to 2005.

Table 4-1
CTHI's O&M and A&G Expenses for each of the Years 2003 -2005

<table>
<tr><th>Expense Category</th><th>2005 Test Year</th><th>2004 Actual</th><th>2003 Actual*</th></tr>
<tr><td>Salaries and Benefits</td><td>$528,042</td><td>$427,253</td><td rowspan="5">$1,038,980</td></tr>
<tr><td>Gas Management Contract**</td><td>205,872</td><td>126,974</td></tr>
<tr><td>Odourant</td><td>27,000</td><td>24,168</td></tr>
<tr><td>Fleet Fuel and Maintenance</td><td>33,000</td><td>23,018</td></tr>
<tr><td>Other</td><td>11,000</td><td>16,115</td></tr>
<tr><td>Contractors, Parts, and Equipment</td><td>161,090</td><td>122,308</td><td>148,486</td></tr>
<tr><td>Insurance</td><td>123,000</td><td>122,989</td><td>47,938</td></tr>
<tr><td>Audit and Legal Fees</td><td>60,000</td><td>57,652</td><td>34,865</td></tr>
<tr><td>Utilities</td><td>36,000</td><td>34,558</td><td>20,275</td></tr>
<tr><td>Land Lease Agreements</td><td>42,000</td><td>40,732</td><td>42,364</td></tr>
<tr><td>Employee Training, Safety, and Travel</td><td>40,000</td><td>36,297</td><td>26,537</td></tr>
<tr><td>Total*</td><td>$1,267,004</td><td>$1,032,064</td><td>$1,359,447</td></tr>
</table>

* Figures may not agree due to rounding
** 2005 figures reflect CTHI's revision of 6 February 2006.

O&M and A&G expenses are addressed in section 4.1. Issues related to the Gas Management Contract line item are examined separately in section 4.2.

4.1 O&M and A&G Expenses

4.1.1 Position of CTHI

CTHI's Application included an amount of $1,267,004 for O&M and A&G expenses for the 2005 Test Year. CTHI explained that its applied-for 2005 Test-Year amounts were based on six months of actual data and six months of forecast data. CTHI noted that an average of its actual audited O&M and A&G costs for the years 2002 through 2004 was $1,267,500. CTHI submitted

that a comparison of this actual cost data with its proposed 2005 Test Year forecast indicates the reasonableness of its applied-for amount. CTHI also noted that its most recent estimate of 2005 O&M and A&G costs, which was based on ten months of actual and two months of forecast data, suggests that its actual 2005 costs will be some $40,000 in excess of the applied-for amount.

CTHI noted that its average cost per full-time equivalent employee is significantly lower than most major pipelines. In addition, it manages and operates its system by striking a practical balance between contracting out and performing work in house. CTHI also noted that it utilizes a competitive bidding or tendering process where practical.

CTHI submitted that its pipeline is an aging system and it should be expected that there will be increased costs, especially contractor costs, associated with maintaining the system. With regard to specific concerns expressed with respect to some of the projected increases in its O&M and A&G costs, CTHI submitted that it runs a lean operation and, for a system of its size, its staffing levels are modest.

With respect to the proposed increased costs associated with Contractors, Parts, and Equipment expenses, CTHI explained that it incurs additional costs to obtain parts and services from third party contractors that were previously provided by Union field personnel. Similarly, CTHI noted that it performs many essential operating and maintenance functions at its own expense that were previously provided to the pipeline operation by Union field personnel. In addition, CTHI noted that its practice for tendering contracted services is based on the significance of the work (i.e., core versus non-core, criticalness to reliability, integrity related) or dollar amount. In most cases CTHI will employ an informal bid strategy to ensure work is being done at a competitive price. In CTHI's view, it is not economical for it to tender all contracted work.

With respect to shipper concerns that some of the costs included in CTHI's 2005 Test-Year forecast may not be recurring, such as the costs for clearing right-of-way and compressor maintenance, CTHI stated that these costs will be recurring and that a $15,000 a year cost for compressor maintenance is a small amount in the scheme of things.

CTHI explained that its costs to secure adequate and appropriate liability, business interruption and breakage insurance for the pipeline system is substantially higher than the costs reflected in its current tolls. In part, the increase is driven by the current insurance environment in which relatively higher premiums are being charged by underwriters for equivalent risk. In addition, a portion of the cost increase relates to the added perceived risk of covering a standalone operating entity. CTHI pointed out that it uses a sophisticated insurance broker who has advised CTHI to only go out for tender every three to five years, as doing it every year can suggest that CTHI is not interested in the long-term relationship that insurance companies require for assuming this level of risk. This being said, CTHI's insurance broker advised CTHI that in its view, CTHI's current premiums are competitive for a company of EFG's size and scope but recommended that a complete marketing exercise be conducted in 2006 or 2007. CTHI advised that one such marketing exercise will be due in about 2006 or 2007.

With respect to audit fees, CTHI contended that Deloitte & Touche (Deloitte), as the historical auditor, was almost certain to be the most economical auditor because the firm is familiar with

CTHI's books of account and would not have start-up costs. As a result, CTHI's position is that the applied for audit fees are fair, reasonable, and likely to be considerably lower than those the company would incur if it tried to bring in a new auditor. In addition, CTHI noted that one of the reasons for the more recent increase is that Deloitte prepares CTHI's income tax return, whereas Union had the return prepared in-house.

With respect to the suggestion that the Board approve a global O&M forecast for CTHI based on actual costs incurred in 2004 plus an adjustment for inflation, the company contended that it is not reasonable for parties to select individual line items in order to suggest that its overall Test-Year forecast is inappropriate. CTHI submitted that its current forecast is a global forecast in that for some of its accounts actual costs may exceed the forecast and for other accounts actual costs may be less than forecast. In CTHI's view, the important issue is whether or not its forecast is reasonable.

4.1.2 Position of Parties

With respect to the line item Salaries and Benefits, both Abitibi and Boise noted that CTHI is including the salary of one additional full-time staff that was not filled in 2005. Boise also pointed out that CTHI had indicated that the 2004 costs included the cost of a contract worker who no longer provides services and, therefore, the cost of that worker will not be incurred in 2005. As a result, in Boise's view, the base cost for salaries and benefits in 2004 on a normalized basis should be lower than $427,253.

Boise noted that the applied-for fleet fuel and maintenance costs of $33,000 in 2005 represents a significant increase over the actual amount of $23,018 in 2004.

Abitibi submitted that the major reasons for the $38,782 increase in Contractors, Parts and Equipment expense, from $122,308 in 2004 to $161,090 in 2005, are a $25,000 expense for right-of-way clearing and a $15,000 expense for compressor maintenance that was not incurred in 2004. Abitibi suggested that such non-recurring costs should not be built into tolls on an ongoing basis.

Both Abitibi and Boise are concerned that CTHI's insurance costs have increased from $47,938 in 2003 to approximately $123,000 in both 2004 and 2005. Abitibi indicated that it expects CTHI to go through a complete retendering process at the next opportunity. Boise noted that this increase occurred even though CTHI has had no claims experience in the last three years.

Abitibi noted that Audit fees from Deloitte rose from $6,000 in 2002 to $22,000 in 2003 and then to the $40-45,000 range in 2004 and 2005. Abitibi deemed this level of increase in 2004 and 2005 to be unreasonable given that the nature of CTHI's business had not changed. Boise also questioned the reasonableness of CTHI's Audit fees for 2005. Boise submitted that given the straightforward nature of CTHI's business, it is not reasonable for Audit fees to have roughly doubled since EFG acquired CTHI.

In Boise's view, it is not necessary for the Board to make specific findings and adjustments regarding individual items of O&M or A&G expense. Boise submitted that it is very difficult in this type of proceeding to follow up or test cost increases on a line-by-line basis. Rather, both

Boise and Abitibi suggested that another approach would be for the Board to approve a global amount for O&M and A&G expenses. This would allow CTHI to determine how and where its budget is to be spent and allow it to operate the pipeline in an efficient and effective manner.

Both Abitibi and Boise suggested that should the Board approve a global amount for O&M and A&G expenses, the global amount should be based on CTHI's actual O&M and A&G costs in 2004 plus an adjustment for inflation.

Boise submitted that the 2004 costs are an appropriate base, as in its view, there is nothing to suggest that CTHI's operating activity levels in the Test Year are materially different than those in 2004. In this regard, Boise noted that CTHI had indicated that its O&M and A&G costs have been trending down since 2003 as a result of sound management and prudent cost control since the change of ownership.

Abitibi stated that CTHI should be directed to sit down with its shippers to review in detail its planned spending over the next 3 to 5 years and arrive at a fair toll for the company and its shippers. In Abitibi's view, there must be enhanced communication between CTHI and its shippers regarding costs on a go-forward basis.

4.2 Gas Management Contract with Union

4.2.1 Position of CTHI

Prior to the acquisition of CTHI and Centra Pipelines Minnesota Inc. (CPMI) by EFG, the interconnected CTHI and CPMI pipelines were operated by Union. Following the acquisition of CTHI by EFG on 25 November 2003, Union continued to provide gas management services, including gas control, capacity planning, and gas management, for the interconnected facilities pursuant to a services agreement that expired on 31 December 2004. In 2004, CTHI's allocated share of the gas management services provided by Union was $126,974. During the course of the RHW-3-2005 proceeding, CTHI was engaged in negotiating an extension of the Union service arrangement.

In its Application, CTHI initially sought approval of a proposed 2005 gas management cost of $213,893, based upon Union's latest contract proposal at the time of filing the Application. This amount reflected an expected total annual fee for Union's provision of gas management services on the CTHI and CPMI pipelines of $310,000 and the proposed allocation of approximately 69 percent of the total cost to CTHI. The initially applied-for 2005 Test Year gas management expense represented an increase of 68.5 percent over the 2004 cost. CTHI explained that this increase was due to Union determining that, for 2004, Union had substantially underestimated the amount of time required to provide the full scope of contract service.

On 6 February 2006, CTHI filed evidence with the Board indicating that it had renegotiated the contract with Union, effective 1 January 2005 for a five-year period; CTHI also revised its applied-for cost of service to reflect the final agreement with Union. Under the terms of the final contract, CTHI's allocated share of the total annual fee for Union's provision of gas management services on the integrated system would be some $135,668 in 2005 and $205,872 in each of the years 2006 to 2009.

For toll-making purposes, CTHI proposed to include in the applied-for tolls, the 2006 contract cost of $205,872, a reduction of $8,021 from the initially applied-for amount of $213,893, to reflect the fact that the 2005 Test Year tolls might continue beyond 2005. In the event the Board approved CTHI's proposed use of the 2006 cost in the calculation of tolls, CTHI proposed to credit shippers an amount of $21,929 which represents the difference between the 2006 amount included in tolls and the lower actual 2005 cost for the period between 9 September 2005 and 31 December 2005. CTHI proposed that this credit be allocated amongst shippers based on each shipper's MDQ.

CTHI submitted that while the Union fee increase is not welcomed by itself, or by its shippers, given that the contract is with an arm's length contractor and is based on a straight recovery of costs with no mark-up for profit, CTHI considers the costs to be an appropriate and prudent component of its cost of service.

In CTHI's view, Union is the optimum service provider for a number of reasons. First, there is an alignment of interests between CTHI and Union as the effective operation of the CTHI system helps to ensure that Union's own distribution system works well. Second, CTHI had discussions with two other pipeline companies regarding the possibility of providing CTHI with a comparable service. While CTHI did not put out formal requests for proposals to these companies, in each case the company indicated that providing these services was not part of their current business operation and that if they were to enter into this business, they would have set-up costs (including programming, testing, transitional considerations), that would affect the fee they would charge in addition to any base fee for the annual service. In addition, these companies would also include a profit component, which in CTHI's view would be a substantial increment to what Union had proposed.

With respect to the views put forward by the Industrial Gas Users Association (IGUA) that the revenue from CTHI is not readily apparent in Union's cost of service, CTHI is of the view that the gas management contract fee is not evident in Union's cost of service because it represents a very small amount in Union's overall cost of service.

With respect to shippers' suggestion that it is counterintuitive to think that Union, having had so much prior experience as an operator of CTHI's pipeline, could underbid the cost of providing gas management services the first time by such a significant amount, CTHI submitted that it is not counterintuitive. Prior to the sale of the CTHI pipeline, Union would not have been tracking discretely the costs associated with managing the pipeline the way it would for an arms-length third-party entity, such as CTHI. As a result, when Union attempted an estimate for the first time in 2003, it was susceptible to making a mistake.

4.2.2 Position of Parties

Abitibi expressed concern regarding the large increase in gas management costs between 2004 and 2005. In Abitibi's view, Union has continued to manage CTHI's pipeline as it did in the past and the scope of the new contract appears to be the same as the initial 2004 contract. Abitibi therefore argued that CTHI failed to demonstrate the reasonableness of the 2005 contracted amount for two main reasons. First, CTHI has not provided adequate evidence to explain the significant increase in Union's price from 2004 to 2005. In this regard, Abitibi stated that it is

counterintuitive that an experienced pipeline operator would say that it could provide its services for so much in one year only to find it had to raise its price by 68 percent the following year. Second, CTHI did not engage in a competitive procurement process. Specifically, Abitibi would have expected CTHI to tender the work, given that gas management costs are the single largest O&M cost apart from salaries. Given the absence of a tendering process, there is no benchmark price from which to compare.

Abitibi also questioned the arbitrariness of Union pricing the contract significantly lower in 2005 under perceived regulatory pressure, and why CTHI proposed to restate 2005 Test Year expenses using the 2006 contract costs. Accordingly, Abitibi submitted that for toll-setting purposes the Board should allow, for the 2005 Test Year, gas management costs only at the level paid by CTHI in 2004. Abitibi also submitted that the Board should remind CTHI that it is difficult to assess the prudency of costs, particularly costs of a significant nature or for a significant service, in the absence of a tender process.

In Boise's view, the renegotiated contract with Union provides for a very modest reduction in CTHI's initially applied-for amount. CTHI has not, in Boise's opinion, provided adequate evidence to explain the significant increase in the fee payable to Union under the new agreement relative to 2004, given that the scope of the services remains unchanged. Boise submitted that the cost increase in 2005 does not seem to square with Union's extensive knowledge and experience with the CTHI pipeline. Boise also questioned why EFG and Union agreed to fix the fee payable under the agreement in 2005 at essentially the same level as the fee payable in 2004 and then to significantly escalate the fee for each of the years 2006 to 2009.

In IGUA's view, the reasonableness of the gas management contract with Union cannot be assessed in the context of whether it is reflective of a market-based contract fee because it has not been tendered. In addition, IGUA submitted that Union had not experienced a significant year over year cost of service increase, so that there ought not to be a significant cost increase associated with the gas management contract. Abitibi also adopted this argument. IGUA also noted that Union did not appear to reflect separately, in a recent filing, the revenue it received from CTHI related to the gas management contract. IGUA therefore submitted that the appropriate amount to be included in CTHI's cost of service for the gas management contract fee is the 2004 amount of $126,974.

Views of the Board

O&M and A&G Costs

In the Board's view, CTHI appears to be managing its costs in a practical and efficient manner for a company of its size. CTHI's practice for tendering contracted services based on the significance of the work is a practical approach. The Board also finds that CTHI's applied-for amounts for 2005 appear reasonable when compared with actual cost data in previous years. With respect to concerns raised by parties regarding significant increases for specific line items such as contractors, parts and equipment; insurance; and audit fees; the Board is persuaded by CTHI's explanations and finds the total applied-for costs to be reasonable. In this

regard, the Board expects CTHI to follow its insurance broker's advice to go out for tender when the next call for proposal is due in 2006 or 2007.

In addition, the Board is of the view that the amount it approves for O&M and A&G expenses can be regarded as a global amount and there may be times when CTHI is either over or under budget on a line-by-line basis. However, as noted by CTHI, the important criterion is whether the overall forecast is seen to be reasonable, which the Board finds to be so.

Gas Management Contract

As noted above, the Board finds that CTHI's policy to go out for tender only when it is considered feasible to do so is a sensible and sound business practice. The Board also accepts CTHI's position that early in the evaluation process to find a suitable operator for its pipeline, it became clear that the two other potential vendors contacted were not in the business and would incur substantial start-up costs that would affect their fees. Once that determination was made, the Board is of the view that CTHI proceeded correctly in negotiating the most advantageous terms possible with Union.

The Board also finds to be reasonable CTHI's expectation that shippers will benefit from Union's management of the CTHI pipeline as Union has an interest in ensuring that the pipeline is operated effectively.

The Board also finds CTHI's proposal to include the 2006 contracted amount in tolls and to credit shippers the difference between the 2006 contracted amount and the lower actual 2005 cost for the period between 9 September 2005 and 31 December 2005 based on each shipper's MDQ to be acceptable.

Decision

The Board approves CTHI's applied-for total O&M and A&G costs of $1,267,004 for the 2005 Test Year. The Board also approves a credit to shippers based on each shipper's MDQ in the amount of $21,929 relating to the revised Union Gas Management Contract for the period from 9 September to 31 December 2005.

Chapter 5

Commodity Toll and Related Issues

5.1 Background

In 1992, CTHI introduced a commodity toll to recover its compressor fuel costs. At the time, CTHI indicated that these costs represented the only expenses which varied with throughput. All other costs would continue to be recovered through the monthly demand charge. In addition, as compressor fuel costs were considered to be difficult to forecast, CTHI proposed that actual fuel usage be compared with the forecast levels, with any cost variance being recorded separately. The accumulated cost variance balance was intended to become the deferred adjustment in the next rate filing.

In its Application, CTHI indicated that compressor fuel costs have increased substantially since 1995 and the company's current commodity toll no longer provides for the recovery of current costs. As a result, CTHI proposed to increase its domestic and export commodity tolls from $\$0.548/10^3m^3$ to $\$1.062/10^3m^3$. CTHI also proposed a temporary surcharge to be applied on a monthly basis for a defined period as a means of recovering the excess fuel costs paid by CTHI that have accumulated and remain outstanding in its deferral account.

There were a number of issues that arose during the proceeding with respect to CTHI's commodity toll and associated deferral account that are addressed further below, including:

- authority for deferral account;
- line heater fuel costs;
- carrying charges;
- method of allocating fuel gas surcharge;
- income tax component of fuel gas surcharge; and
- treatment of fuel gas related issues on a go-forward basis.

5.2 Deferral Account

Following receipt and review of Appendix B of CTHI's 1992 tolls application, which was provided by the Board to all parties on 1 February 2006, no party disputed the existence of a Board approved deferral account to record variances between the forecast and actual compressor fuel costs incurred by CTHI. However, the inclusion of the cost of fuel for line heaters in the deferred balance was an issue.

5.2.1 Position of CTHI

CTHI indicated in its Application that it has been tracking the cost differences between what it pays for compressor and line heater fuel and what it receives in its commodity toll in a deferral account for the purposes of crediting or recovering any accumulated balances that may occur. Table 5-1 shows the annual activity and closing balances that have been tracked by the company in each year since 1994.

With respect to Boise's recommendation that the Board disallow line heater fuel costs, CTHI submitted that line heater fuel is a real, just and reasonable cost incurred by the company to operate its system, and although historically it has not been itemized as a separate component of company use fuel, it is procured at the same time and is indistinguishable from fuel used for compressor operations.

Table 5-1
Schedule of Deferred Fuel Cost Variance Balances

Year	Opening	Activity	Closing
1994	(52,607.48)	(24,170.36)	(76,777.84)
1995	(76,777.84)	(37,366.34)	(114,144.18)
1996	(114,144.18)	(55,530.45)	(169,674.63)
1997	(169,674.63)	(54,137.40)	(223,812.03)
1998	(223,812.03)	(67,368.88)	(291,180.91)
1999	(291,180.91)	65,623.62	(225,557.29)
2000	(225,557.29)	18,559.18	(206,998.11)
2001	(206,998.11)	86,619.77	(120,378.34)
2002	(120,378.34)	57,489.26	(62,889.08)
2003	(62,889.08)	58,495.06	(4,394.02)
2004	(4,394.02)	125,986.33	121,592.31
2005*	121,592.31	129,016.08	250,608.39

* 7 months of actual information ending 31 July 2005.

5.2.2 Position of Parties

While it recognized the existence of a deferral account, Boise noted that CTHI had included in its 2004 compressor fuel costs, an amount of $72,273 relating to the cost of fuel to operate line heaters. Boise suggested that this is the only year in which CTHI has included line heater fuel in its deferral account costs. In Boise's view, fuel required to operate line heaters is unrelated to the fuel required to operate compressors. In this regard, Boise noted that the commodity toll applied for by CTHI in its 1991 tariff filing did not include the cost of fuel to operate line heaters, nor did the Board's 1992 Reasons for Decision approve costs other than compressor fuel in CTHI's commodity toll. Boise also noted that the cost of line heater fuel was not included in the

commodity toll applied for by CTHI in its 1995 toll application. Accordingly, Boise submitted that as no deferral of line heater fuel cost has previously been approved by the Board, the Board should disallow accrued line heater fuel costs.

5.3 Carrying Charges

5.3.1 Position of CTHI

CTHI stated that it uses a simple interest rate methodology to calculate carrying charges and that it has applied this methodology since the fuel cost variance deferral account was first established in 1992. Under this methodology CTHI tracks and accumulates the monthly principal and interest balances separately. Interest is charged on the opening monthly accumulated principal balance using the prime rate of interest.

CTHI maintained that although parties may disagree with the methodology it has applied, there is no ambiguity with regard to the methodology and, although other jurisdictional entities may use different approved methods, the method CTHI has utilized is just and reasonable. CTHI also submitted that the alternative carrying charge methodology proposed by both Abitibi and Boise for calculating carrying costs has not been tested and should not be relied upon as a basis for a Board decision.

CTHI indicated that it does not intend to apply carrying charges on the outstanding deferral account balance accrued from 1 January 2004 to the date its tolls become effective in 2005, nor does it propose to collect carrying charges during the time this amount remains uncollected through its proposed surcharge methodology. However, should the Board instruct CTHI to continue the use of the fuel cost deferral account, CTHI indicated that it will resume interest calculations for amounts accrued in 2006 and following.

5.3.2 Position of Parties

Both Abitibi and Boise are of the view that CTHI has not calculated its carrying charges in the correct manner. Both parties claimed that CTHI's methodology for calculating carrying charges appears to calculate interest based only on the net activity in a month, rather than calculating the interest on the monthly outstanding balance in the deferral account.

Abitibi suggested that CTHI should recalculate the interest in the accumulated fuel cost balances since 1995 using a methodology under which interest is calculated on the opening balance for each month of the accumulated deferred compressor fuel costs.

Boise submitted that carrying charges on the compressor fuel deferral account should be determined by first calculating interest each month on the deferral balance at a rate equal to 1/12th of the appropriate annual rate of interest, and then adding this interest to the opening balance in the account at the beginning of the month. Boise believes that the appropriate rate of interest is the rate base rate of return which Boise suggests has been 9.5 percent over the period since 1995. Boise argued that this rate is consistent with carrying charges approved by the Board in its past decisions.

Boise also submitted that CTHI should be required to provide sufficient information, including all monthly opening and closing balances in the deferral account and the calculation of the associated carrying charges, to enable all parties to determine that the deferral account balance and monthly surcharges have been calculated in accordance with the Board's decision.

5.4 Method of Allocating Surcharge

5.4.1 Position of CTHI

CTHI has proposed a monthly surcharge to recover the outstanding deferral account balance of $250,608, which had accumulated up to the time of its Application, over the remaining term of each shipper's current contract. CTHI's proposed methodology does not seek recovery of the carrying costs it will incur during the period over which these amounts will be recovered.

CTHI explained that the monthly surcharge for each customer has been determined by first allocating to each shipper its proportional share of the outstanding deferral account balance based upon the shipper's MDQ. That amount is then divided by the number of months remaining in each customer's transportation agreement to determine the fixed monthly amount to be levied to each shipper as the temporary surcharge. CTHI chose this method of allocation on the principle that a shipper's MDQ represents a reasonable proxy for cost causation, notwithstanding differences in contract utilization rates, and that this methodology represents an appropriate balance between cost causation and practicality. CTHI believes that the monthly surcharge and the method upon which it has been determined represent a fair, equitable and administratively practical approach for the recovery of these costs from shippers.

CTHI noted that on an annual average basis, approximately one-third of the cost of arranging sufficient fuel and having it available is a fixed reservation cost relating to transportation on the pipeline system of TransCanada PipeLines Limited (TransCanada). CTHI noted that there are times when these fixed reservation charges represent the only component of the company's actual fuel costs. Throughout the majority of the summer and shoulder months, compressor and line heater fuel utilization is so low, or not required, that the fixed demand component during this period represents close to 100 percent of the company's fuel costs.

With respect to whether or not the deferred costs should be allocated to shippers based on each shipper's MDQ, or by actual throughput as suggested by Boise, CTHI noted that it is revenue-neutral using either methodology. CTHI submitted that Boise's method would shift costs from Boise to Westcoast Power Inc. (Westcoast Power). Effective 1 November 2005, Abitibi acquired Westcoast Power's cogeneration facility.

5.4.2 Position of Parties

Abitibi supported CTHI's proposed disposition of deferred fuel costs based on a shipper's contract MDQ.

Boise submitted that there is no justification or rationale for using a shipper's contract MDQ rather than its contract utilization as the basis for allocating deferred fuel costs. Boise noted that

CTHI's suggestion that one-third of costs associated with arranging for fuel are fixed can be easily turned around to say that two-thirds of the costs are variable.

IGUA urged the Board to adopt a recovery mechanism that would reflect the consensus of CTHI shipper submissions in this proceeding, with the consensus weighted to reflect shipper contracted volumes.

5.5 Income Tax Component of Fuel Gas Surcharge

5.5.1 Position of CTHI

CTHI noted that the collection of the $250,608 deferral account balance will result in additional income taxes for CTHI. Given that this amount is proposed to be recovered from shippers over an average term of 2.25 years, CTHI included an amount of $111,382 as revenue in its income tax calculation for the 2005 Test Year. CTHI proposes to collect the income tax associated with the surcharge in its demand toll. In CTHI's view, the income tax adjustment for surcharge revenue is consistent with past practice. However, CTHI stated that it is not opposed to the recovery of income taxes relating to surcharge revenue through the surcharge mechanism or such other methodology that is directed by the Board.

5.5.2 Position of Parties

Boise noted that CTHI's income tax calculation for 2005 includes the impact of the additional revenue of $111,382 related to the compressor fuel surcharge that CTHI is proposing to collect in 2005. Boise suggested that including the income tax effect in the demand toll, rather than in the surcharge, has the effect of improperly inflating the income tax expense and the demand toll beyond 2005. In Boise's view, if CTHI is permitted to recover any prior period fuel cost, after properly accounting for carrying costs, then the associated income tax expense should only be recovered through the surcharge.

5.6 Treatment of Fuel Cost Variances on a Go-Forward Basis

There were a number of ancillary issues raised in connection with the fuel gas issue. First, shippers raised the possibility of using their own fuel gas on a go-forward basis. Second, if provision of fuel by CTHI and a deferral account mechanism is maintained, it was suggested that the frequency with which the deferral account is cleared should be considered. Third, it was suggested that CTHI should consider changing its manner of contracting on the TransCanada system in order to better optimize its gas transportation costs.

5.6.1 Position of CTHI

Although CTHI indicated that it was not opposed to exploring the possibility of shippers being able to provide their own fuel, it strongly advocated a number of minimum requirements that would have to be considered prior to agreeing to such an approach. The key points noted by CTHI are as follows:

- there would have to be unanimous agreement amongst shippers;

- CTHI would continue to maintain absolute control over the dispatch of its system and shippers' failure to deliver fuel must be addressed in a fashion in the tariff that does not adversely impact the pipeline's ability to meet its delivery obligations;
- CTHI must not be left with any stranded costs (transportation or commodity) associated with transitioning to a shipper supplied-fuel regime;
- shippers would be required to arrange transportation on both the CTHI and CPMI systems as well as upstream as the case may be, to effect delivery of the required fuel to CTHI's compressors stations;
- CTHI would require the establishment of strict balancing parameters and tolerance including penalties of some nature for non-delivery of customer supplied fuel; and
- CTHI would be allowed to recover the reasonable costs of implementing the tariff changes.

CTHI suggested that its current treatment of fuel costs has a number of advantages. First, shippers have rate stability over a fixed planning period as they are not subject to monthly changes in commodity rates caused by variances in the volume and price of company-use fuel. Second, shippers are insulated from the administrative burden and costs associated with reconciling and validating invoiced commodity charges. Third, the responsibility for the procurement and administration of compressor and line heater fuel and the administration of its cost recovery reside with CTHI, not the shippers. Finally, as is the case presently, a deferral account balance that has accumulated material fuel costs in excess of amounts received from shippers does not attract a carrying charge.

CTHI indicated that it would be willing to accept a change whereby fuel cost variances would be collected in the month after they are incurred, or to have the deferral account disposed of on a more frequent basis. With respect to Abitibi's suggestion of CTHI changing its contracting on the TransCanada system in order to better optimize its gas transportation costs, CTHI does not consider this to be a viable option. However, CTHI indicated its willingness to consult with shippers, and if it can obtain shipper consensus on a different and less expensive service mix, it would be pleased to operate on that basis.

5.6.2 Position of Parties

Abitibi recommended that CTHI should be directed to meet with its shippers to resolve these issues. Abitibi saw the following two options:

1. shippers could provide their own compressor fuel in-kind, or
2. if a deferral account is maintained;
    a. there should be a more frequent clearing of variances; and
    b. there should be discussions between CTHI and its shippers to discuss the feasibility of the company changing its contracting practices on the TransCanada system in order to better optimize CTHI's gas transportation costs.

Boise believes that CTHI's tariff should be amended to eliminate the commodity toll, and instead, require shippers to provide compressor fuel in-kind. Boise recommended that the Board direct CTHI to work with its shippers to implement this change. In Boise's view, CTHI and its shippers should be given the opportunity over a fixed period of time, following the issuance of the Board's decision, to work out the necessary tariff changes, including changes to operating practices for filing with the Board. If the parties are unable to reach a consensus on the required changes, then CTHI could bring the matter back before the Board for resolution.

IGUA urged the Board to establish a process whereby CTHI is required to file with the Board, for approval, a plan to eliminate the outstanding fuel gas deferral account balance any time the deferral account balance is 5 percent or more of the currently approved CTHI cost of service.

5.7 Commodity Toll

CTHI applied to recover in its proposed commodity toll the expected cost of sourcing and supplying compressor and line heater fuel to its system. CTHI explained that on a volumetric basis its compressor and line heater use fuel has remained relatively constant year over year. However, the cost of procuring fuel for company use has more than tripled since CTHI's commodity toll was last approved in 1995. CTHI submitted that its proposed commodity toll increase reflects the current natural gas pricing environment. CTHI included in its applied-for cost of service, an amount of $427,940 for compressor and line heater fuel expense, to which no party objected for tolling purposes on a go-forward basis.

Views of the Board

Line Heater Fuel Costs

The Board accepts that the cost of line heater fuel, which is procured at the same time and in the same manner as fuel used for compressor operations, is a real and prudent cost incurred by CTHI to operate its system. However, the Board agrees with Boise that there is no explicit reference to line heater fuel in either the 16 December 1991 CTHI toll application, or the 1 October 1992 Board authorization and accompanying Order TG-9-92, pursuant to which the fuel gas deferral account was established. To the contrary, the 16 December 1991 CTHI filing makes explicit reference only to "compressor fuel costs", along with indication that these costs represent the only expense that varies with throughput and that "[a]ll other expenses will continue to be recovered through the monthly demand charge."

In the absence of explicit reference to line heater fuel costs in the 16 December 1991 toll application or associated Board authorization, the Board has considered whether the inclusion of line heater fuel in the deferral account was implicitly approved by the Board in 1992. However, no evidence was presented to suggest that line heater fuel costs were included in the forecast of compressor fuel costs specified in Schedule 4.3 of CTHI's 16 December 1991 toll application, nor other indication that

line heater fuel costs may have been implicitly included within the scope of the Board approved deferral account.

Accordingly, based on the evidence adduced in this proceeding, the Board is unable to find that CTHI obtained prior approval to include the cost of fuel gas for line heaters in the established deferral account. As such, and notwithstanding the appropriateness of the procurement of line heater fuel by the company, the Board does not agree that CTHI had the right to treat the cost of line heater fuel gas any different from other costs of its operations. In the Board's view, to find otherwise based on the evidence of this case would be to inappropriately engage in retroactive revision of the scope of the deferral account approved by the Board in 1992.

The Board denies recovery of line heater fuel gas costs and any associated carrying charges included in CTHI's outstanding deferral account balance. However, the Board is of the view that CTHI has established that line heater fuel gas costs vary with throughput and are part of the fuel gas cost forecast on which the applied for 2005 Test Year commodity toll is based. Accordingly, the Board approves the inclusion of line heater fuel costs in the calculation of the commodity toll and associated variances in the fuel cost deferral account.

Carrying Charges

CTHI stated that it uses a simple interest rate methodology to calculate carrying charges and that it has applied this methodology since the fuel cost variance deferral account was first established in 1992. Under this methodology CTHI tracks and accumulates the monthly principal and interest balances separately. Interest is charged on the opening monthly accumulated principal balance using the prime rate of interest. As a result there is no compounding of interest.

The Board notes that there are various methodologies to calculate an interest component for carrying charges and that CTHI has employed a simple interest rate methodology using the prime rate of interest. The Board finds that CTHI has consistently applied this methodology since the inception of the deferral account. In the Board's view, the interest rate methodology employed by CTHI is not unreasonable in this context.

In the Board's view, CTHI's evidence suggests that the outstanding deferral account balance of $250,608.39 that had accumulated up to the time of its Application is net of some $60,000 in accumulated interest that the Board finds reasonable.

The Board is also of the view that the problems identified by shippers related to this matter illustrate the need for CTHI to be more transparent in its activities with its shippers. The Board also notes that the concerns of

shippers going forward may be better addressed by a methodology that calculates interest in a manner more consistent with that recommended by its shippers.

Method of Allocating Surcharge

No party disputed CTHI's proposed recovery of the outstanding deferral account balance through a surcharge, although parties did have differing views regarding the allocation methodology. The Board notes CTHI's proposal not to impose a carrying charge during collection of the deferral account balance outstanding on 9 September 2005.

The Board accepts that, in this case, a shipper's MDQ represents a reasonable proxy for cost causation, notwithstanding differences in contract utilization rates. In this regard, the Board is persuaded by CTHI's position that some recognition should be afforded the fact that on an annual average basis, approximately one-third of the cost of arranging sufficient fuel and having it available on CTHI's pipeline system is a fixed reservation cost relating to transportation on TransCanada's pipeline system. Accordingly, the Board finds CTHI's method of allocation and recovery appropriate in the circumstances.

Income Tax component

The Board agrees with Boise that including the income tax effect in the demand toll, rather than in the surcharge, has the effect of improperly inflating the income tax expense and the demand toll in the years beyond 2005 and 2006. As a result, the Board is persuaded that the income tax expense associated with the collection of the deferral account balance related to prior period compressor fuel costs should also be recovered through the surcharge.

Treatment on a go-forward basis

In the Board's view, the matters of whether shippers should have the opportunity to provide their own fuel gas; whether the deferral account mechanism should be maintained, and if so, the appropriate methodology for calculating carrying charges on a go-forward basis; how often the deferral account balance should be cleared; and whether or not there is potential for CTHI to better optimize its gas transportation costs with TransCanada, are all issues better addressed through discussions between CTHI and its shippers. In the event discussions do not result in an acceptable solution, parties may seek direction from the Board. The Board notes, however, that it is important that CTHI be clear with shippers with respect to the potential impacts of any such changes, and that any changes should be reflected in revised toll or tariff schedules filed with the Board.

For a further discussion of these matters, please refer to the Board's decisions in Chapter 8.

Commodity Toll Costs

The Board finds CTHI's applied-for forecast of compressor and line heater fuel costs of $427,940 to be reasonable for the purposes of calculating the proposed commodity toll of $\$1.062/10^3m^3$ on a go-forward basis effective 9 September 2005.

Decision

The Board approves the continued use of CTHI's fuel cost deferral account as well as CTHI's methodology for calculating carrying charges on outstanding deferral account balances until such time as a revised approach may be proposed and approved by the Board.

With respect to line heater fuel costs, the Board disallows the recovery of all line heater costs included in CTHI's deferral account balance prior to 9 September 2005. Effective 9 September 2005, the Board approves the inclusion of line heater fuel costs in the calculation of the commodity toll and associated variances in the fuel cost deferral account.

The Board approves the use of CTHI's proposed MDQ surcharge methodology for the allocation and recovery of the final approved deferral account balance outstanding at 9 September 2005.

The Board directs that CTHI include the income tax component of the surcharge revenue as part of the surcharge itself.

The Board approves CTHI's applied-for domestic and export commodity tolls of $\$1.062/10^3m^3$ effective 9 September 2005.

Chapter 6

Pipeline Integrity Costs

6.1 General

6.1.1 Position of CTHI

One of the cost drivers giving rise to CTHI's proposed toll increase is its planned integrity program. The requirements for pipeline integrity, maintenance and mitigation on its pipeline system have evolved over a number of years, resulting in an increase in the planned and required level of maintenance capital and O&M expenditures relating to system integrity.

The overall objective of CTHI's integrity program is to maintain and manage all of its natural gas transportation facilities in a safe, responsible and reliable manner without failures or other incidents. CTHI's plan has both short- and long-term objectives and specific projects associated with it. CTHI's near term projects include a close interval survey to measure the effectiveness of the cathodic protection program and the first phase of its pigging program. The mid- to long-term elements of the integrity program are to continue work on the multiple phase pigging program which will result in the entire pipeline being modified to accept internal inspection tools. A summary of CTHI's total forecast capital expenditures is presented below in Table 6-1.

Table 6-1
Summary of CTHI's Proposed Integrity Management Program Expenditures

Long term integrity related capital plan:	**2005**	**2006**	**2007**	**2008**	**2009**
Internal pipeline assessment and qualification program	$567,000	$530,000	$530,000	$642,500	$642,500
Pipeline integrity management – External corrosion direct assessment	16,500	16,500	16,500	16,500	16,500
Compressor rebuild	0	125,000	0	125,000	0
Capitalized pipeline maintenance	40,000	33,800	25,000	14,300	11,400
Capitalized station maintenance and development	43,000	10,500	8,000	4,500	3,400
Annual Capitalized Operational and Maintenance plans:					
Fleet replacement program	45,000	45,000	45,000	45,000	45,000
Tools and Equipment program	66,000	66,000	66,000	66,000	66,000
Total	**$777,500**	**$826,800**	**$690,500**	**$913,800**	**$784,800**

During the proceeding, an issue was raised as to whether CTHI should be required to file an annual information package which would include, among other things, details on the company's integrity management activities.

CTHI noted that the substance of the integrity program was not the subject of any particular concern by the parties as to its prudence or necessity. CTHI believes its integrity management program is an appropriate plan that reflects modern standards of safety and reliability and the vintage of the facilities. CTHI's position is that the budgeted amounts for expenditures are reasonable and prudent estimates of the costs of implementing the plan and therefore should be included in the company's rate base.

With respect to an annual information package, CTHI submitted that a formal annual filing of its pipeline integrity expenditures and forecasts to both the Board and shippers is neither required, nor appropriate, for a Group 2 pipeline. However, CTHI stated that it is willing to consult with shippers in order to ascertain the type of information they believe would be appropriate and to provide such information to shippers.

With respect to the issue of a deferral and tracking account for pipeline integrity costs, CTHI suggested that this request is premature. CTHI noted that it files annual audited statements and suggested that if a shipper is concerned in the future with expenditures in this area, it has the ability to file a complaint on the issue. CTHI submitted that shippers would not receive material benefits from a deferral account since there would be costs associated with creating and administering such a deferral account.

6.1.2 Position of Parties

Abitibi argued that CTHI should be required to develop an information package, in consultation with shippers, to be filed annually with the Board and provided to its shippers. Given that CTHI is about to embark on a major pipeline integrity management process, Abitibi submitted that this information package should contain information on pipeline integrity management plans.

Boise indicated that it is entirely dependant on CTHI's pipeline system for the delivery of gas. Accordingly, Boise has a vital interest in ensuring that the pipeline facilities are properly maintained by CTHI and that amounts recovered by CTHI in its tolls on account of pipeline maintenance and integrity activity is for work actually carried out. Boise stated that it does not oppose the Test Year costs for the integrity program; however, it continues to have questions and concerns about the budgeted cost. As such, Boise submitted that CTHI should be required to file with the Board, on an annual basis, a detailed report of the company's integrity management activities. Boise also stated it is prepared to bear the costs that may be associated with preparing the additional reports.

Views of the Board

As a pipeline under the Board's jurisdiction, CTHI must adhere to NEB regulations, including the requirement to develop a pipeline integrity program. One of the elements of an integrity program is condition monitoring, which can include periodic in-line inspections. The ability to

make its pipeline piggable for cleaning, gauging and inspection will enable CTHI to detect and determine internal corrosion, external corrosion, dents and metal loss due to third party damage, as well as give some indications of the possibility of stress corrosion cracking from metal loss features, specifically at girth welds. The Board is of the view that CTHI's pipeline integrity plans and associated costs are both reasonable and appropriate in order to maintain safe and reliable pipeline facilities, given that the pipeline has been in operation since 1971.

The Board has a program of physical audits for both Group 1 and Group 2 pipelines. The Board expects that it will conduct such an audit of CTHI, including its integrity program, in due course.

With respect to filing a formal annual information package, the Board expects CTHI to consult with its shippers as to the type of pipeline integrity information they would consider appropriate. This is further addressed in Chapter 8.

Decision

The Board approves CTHI's applied-for integrity program costs for toll making purposes for the Test Year.

Chapter 7

Cost of Capital

CTHI applied for an increase in the percentage of common equity in its capital structure (equity ratio) from 35 percent to 40 percent, an increase in its cost of debt from 7.33 percent to 7.50 percent, and a reduction in its return on common equity (ROE) from 13.5 percent to 12.5 percent. After taking into consideration each of these proposed changes, CTHI's overall applied-for cost of capital[1] remains unchanged at 9.5 percent.

7.1 Business Risk

7.1.1 Position of CTHI

A key determinant of the cost of capital is the business risk faced by the company. CTHI noted that it is exposed to a number of business risks specific to its pipeline, some of which are unique to its new environment and did not exist at the time the Board last approved the company's tolls.

CTHI divided the analysis of its business risk into two categories: market risk, and operating risk. With respect to market risk, CTHI highlighted the fact that its customer group is small and not diversified. As at 1 December 2005, it was composed of four shippers: Abitibi, Aquila, Boise, and Union. CTHI noted that Abitibi and Boise comprise approximately 70 percent of the total system demand, with 87 percent of CTHI's demand under contract to entities whose credit rating is below investment grade. CTHI also submitted that the majority of the pipeline's demand contracts have less than 24 months remaining to expiry and one-third have less than 12 months. In addition, there exists increased throughput uncertainty due to the relatively high natural gas price environment.

CTHI expressed the view that the market and associated demand for transportation service on the pipeline are not expected to grow in the future. CTHI noted its shippers are dependent on the pipeline for their natural gas and CTHI is also dependant on the existence and viability of its current shippers to recover its cost of service and earn a reasonable return.

With respect to operating risk, CTHI submitted that future costs for system integrity are uncertain and that portions of the system have been in-service in excess of 30 years. CTHI also noted that the pipeline does not have back-up compression capability, redundancy or natural gas storage. Therefore, CTHI is of the view that it faces higher levels of potential supply disruption risk than the major pipelines with looped systems, compressor redundancy, or access to storage.

Overall, CTHI contended that its business risks are more similar to those of U.S. Federal Energy Regulatory Commission (FERC) regulated gas pipelines than to NEB-regulated Group 1 gas pipelines. In support of this view, CTHI noted that the regulatory model applied by the Board to Group 1 pipelines, which often includes an array of deferral accounts, provides a higher degree

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1 Cost of capital = (equity ratio)(ROE) + (debt ratio)(cost of debt).

of assurance of earning the allowed return than the complaint basis approach applicable to CTHI and FERC-regulated gas pipelines. With respect to Group 2 companies, CTHI expressed the view that the most relevant comparable is the Milk River Pipeline for which the Board approved an ROE of 13.0 percent and an equity ratio of 50 percent in 2001.

7.1.2 Position of Parties

Boise submitted that CTHI provided no substantive evidence supporting CTHI's view that FERC-regulated pipelines are more comparable to CTHI in terms of business risk than NEB-regulated Group 1 pipelines. With respect to the Milk River Pipeline, Boise stated that it is subject to throughput risk while CTHI is not. Boise also stated that the Milk River Pipeline faces competition risk from alternative oil pipelines while CTHI is a monopoly.

7.2 Capital Structure

7.2.1 CTHI

CTHI applied for an increase in its equity ratio from 35 percent to 40 percent, reflecting CTHI's actual capital structure as of 2004. CTHI submitted that the proposed capital structure and resulting rates balance the company's limited access to capital and overall business risk with the fair return standard and the requirement for just and reasonable tolls.

CTHI is owned by EFG, a private Ontario limited partnership. EFG also owns the portion of the pipeline system that is located in the U.S. and is regulated by the FERC. CTHI stated that, on a stand-alone basis, it does not have the ability to attract debt financing from traditional third-party lenders. At the time the partnership acquired the pipeline, CTHI approached some Canadian chartered banks to obtain senior secured debt. As none of these institutions was prepared to tender CTHI debt, the acquisition was entirely financed by equity raised by the partnership. However, the partnership provided CTHI with a loan in the form of unsecured debt, with no defined repayment terms, to achieve an equity ratio of approximately 40 percent in order to establish a capital structure more in line with a typical utility.

In support of this structure, CTHI noted that its U.S. samples had an average equity ratio that ranged from 51 percent to 70 percent and that the Milk River Pipeline had an approved equity ratio of 50 percent in 2001.

7.2.2 Position of Parties

No party commented on CTHI's proposed equity ratio of 40 percent.

7.3 Cost of Debt

7.3.1 Position of CTHI

CTHI applied for an increase in its cost of debt from 7.33 percent to 7.5 percent. CTHI's debt was issued by EFG in December 2004 when the long-term Canada bond yield was 5.2 percent.

CTHI based its applied for cost of debt on subordinated debt issues of other utilities. It chose subordinated debt issues as the basis for estimating its cost of debt because its lender (EFG) has not required any covenants on the debt as would be required for non-subordinated debt. CTHI stated that the utilities used for comparison were investment grade with substantially superior credit quality to CTHI. Further, these utilities had an average credit spread over the long-term Canada bond yield of 248 basis points (bps) while CTHI applied for a cost of debt with an implied credit spread over the long-term Canada bond yield of 230 bps.

7.3.2 Position of Parties

Boise expressed the view that little evidence was provided in support of the proposed 7.5 percent cost of debt. Boise stated that CTHI made rate comparisons with subordinated debt issues with maturity terms ranging from 10 years to 50 years, whereas CTHI's debt was essentially a demand loan with no term.

Further, Boise expressed the view that CTHI should have some short-term debt in its capital structure. Boise submitted that short-term debt would require a lower interest rate than 7.5 percent.

No other party commented on CTHI's proposed cost of debt.

7.4 Return on Common Equity

7.4.1 Position of CTHI

CTHI applied for an ROE of 12.5 percent, which is a decrease of 100 bps from its previous ROE of 13.5 percent. CTHI submitted that the pipeline is smaller with more limited access to capital and relatively higher business risk than the Group 1 pipelines governed by the RH-2-94 multi-pipeline formula ROE (RH-2-94 ROE). Given these three factors, CTHI expressed the view that the pipeline requires a higher ROE than the RH-2-94 ROE. Further, CTHI submitted that there is no pure play market data available to directly quantify the appropriate ROE as the pipeline is privately held and possesses the aforementioned features.

In a comparative analysis, CTHI noted that Maritimes and Northeast Pipeline, Alliance Pipeline, and Vector Pipeline have an average ROE of 12.2 percent. CTHI submitted that these pipelines are larger with superior access to capital and supported by long-term contracts with shipper groups having better credit quality. Further, CTHI stated that its U.S. samples had an average ROE that ranged from 12.1 percent to 12.5 percent and that in 2001 the Milk River Pipeline was awarded an ROE of 13.0 percent.

7.4.2 Position of Parties

Boise submitted that the RH-2-94 ROE for NEB-regulated Group 1 pipelines was 9.46 percent in 2005 and 8.88 percent in 2006. Boise noted that in 1995, when CTHI's ROE was last established, its approved ROE reflected a 125 bps premium over the RH-2-94 ROE. Boise argued there was no evidence to support an increase from the 125 bps premium applied in 1995. Boise submitted that if the same 125 bps premium was applied to the 2006 RH-2-94 ROE of

8.88 percent, the outcome would yield an ROE of 10.13 percent. Therefore, Boise expressed the view that an ROE closer to 10.5 percent would be more appropriate than the applied for level.

No other party objected to CTHI's proposed ROE.

Views of the Board

As stated by the Federal Court of Appeal in *TransCanada PipeLines Limited v. Canada (National Energy Board)*, "the cost of capital to a utility is equivalent to the aggregate return on investment investors require in order to keep their capital invested in the utility and to invest new capital in the utility."[2]

The aggregate return is a function of the cost of debt, the cost of equity, and the relative amounts of debt and equity contained in the capital structure.

In determining the cost of capital that a utility should be allowed to recover in its cost of service, the Board has had regard to the fair return standard. As set out in the RH-2-2004 Phase II Decision, a fair return on capital should:

- be comparable to the return available from the application of the invested capital to other enterprises of like risk (the comparable investment standard);
- enable the financial integrity of the regulated enterprise to be maintained (the financial integrity standard); and
- permit incremental capital to be attracted to the enterprise on reasonable terms and conditions (the capital attraction standard).[3]

Accordingly, the cost of capital for a utility will depend, in part, on the individual circumstances of the utility, i.e. its specific business, financial and overall investment risks. For Group 1 companies, the Board has set the allowed ROE through the use of the RH-2-94 ROE (8.88 percent for 2006) and reflected specific levels of pipeline business risk through variations in the allowed capital structure in order to achieve a fair overall cost of capital. For example, TransCanada Mainline currently has an equity ratio of 36 percent.[4] For Group 2 companies, the use of the RH-2-94 formula has not been used as the standard, although the requirement to allow a fair return on invested capital remains.

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2 (2004), 319 N.R. 171 at para. 6, 2004 FCA 149.

3 National Energy Board RH-2-2004 Phase II Reasons for Decision, TransCanada PipeLines Limited (Cost of Capital), April 2005 [hereinafter RH-2-2004 Phase II] at 17.

4 *Ibid.*, at 80.

The Board accepts that, for a utility such as CTHI, it is difficult to provide directly comparable evidence on the return available to enterprises of like risk. Instead, it is necessary to examine the data that is available and provide evidence as to how the utility differs from other entities with established costs of capital and the impact these differences are likely to have on its cost of capital. This is the approach that CTHI has used in comparing itself with Group 1 companies, FERC-regulated gas pipelines, and the Milk River Pipeline.

In the Board's view, CTHI's evidence shows that it is subject to greater business risk than Group 1 companies. In particular, the Board notes that it has only four shippers, with considerable concentration in one sector. Two of these shippers are responsible for 73 percent of total system demand and 87 percent of CTHI's demand is under contract with entities whose credit rating is below investment grade. The Board also notes that one-third of CTHI's demand contracts have a remaining contract term of less than 12 months and a majority has less than 24 months. The fact that the assurance of demand charges being paid is for a limited period of time represents a risk to CTHI.

The Board acknowledges that CTHI faces operating risks arising from the fact that it is an aging system requiring an extensive integrity management program, with a single line, no back-up compression, and no available storage. As Abitibi and Boise pointed out, these factors give rise to concerns about continuity of service.

Regulatory risk is the risk to the income-producing capability of the assets that arises due to the method of regulation of the company. The Board is of the view that once CTHI puts in place a functional consultation mechanism with its shippers, its regulatory risk will be considerably reduced. However, given the size of CTHI's cost of service ($3.9 million, Table 2-1) it is unlikely that CTHI will have the same level of ongoing dialogue with its shippers as Group 1 companies, leaving CTHI with residual regulatory risk.

CTHI's sample of FERC-regulated natural gas pipelines had a median ROE of 12.5 percent and equity ratio of 57.7 percent. The Board is of the view that, while there is limited evidence with which to make a detailed comparison, the evidence related to these pipelines indicates CTHI's proposed cost of capital is not outside the range of that of North American gas pipelines.

With respect to the assertion that the most relevant comparator for CTHI is the Milk River Pipeline, which was awarded an ROE of 13.0 percent with an equity ratio of 50 percent,[5] the Board notes that CTHI has provided no evidence as to their comparability other than that they are both Group 2

5 National Energy Board letter decision of 9 August 2001, Murphy Oil Company Ltd. (Toll Complaint), 2001 at 12-13.

pipelines. Accordingly the Board has attached little weight to this evidence.

Regarding the capital attraction standard, the Board notes that the evidence indicates that CTHI, as a small utility with a $7.4 million rate base, is unable to attract debt capital on a stand-alone basis from the capital markets and instead has accessed debt markets through its owner EFG. In the Board's view, this puts upward pressure on CTHI's overall cost of capital. Similarly, the small size of the utility, coupled with the business risks described above, suggests that a larger equity component is required in the capital structure if the financial integrity of CTHI is to be maintained.

Accordingly, the Board finds that the applied for ROE of 12.5 percent and common equity component of 40 percent provide a reasonable overall return on equity capital.

With respect to CTHI's request to increase its cost of debt from 7.33 percent to 7.5 percent, the Board is of the view that CTHI's use of the subordinate debt issues of other utilities to establish its cost of debt is appropriate given the lending arrangements with EFG. Further, the Board is of the view that because the utilities used were investment grade and therefore likely of higher credit quality than CTHI, the use of these utilities leads to a reasonable estimated cost of debt.

Decision

The Board approves an increase in CTHI's equity ratio from 35 percent to 40 percent, an increase in cost of debt from 7.33 percent to 7.55 percent, and a decrease in ROE from 13.5 percent to 12.5 percent.

Chapter 8

Filing Requirements

8.1 Annual Filing Requirements

8.1.1 Position of CTHI

With respect to parties' submissions that CTHI should be required to submit annual information to both the Board and its shippers different from that contained in its audited financial statements, CTHI indicated it would be willing to consult with its shippers to determine what information would be appropriate, and to provide that information to its shippers only, and not the Board, on an annual basis. Should shippers, upon reviewing this information find something of concern, CTHI would prefer that they first approach the company, rather than the Board, in order to resolve any concerns prior to filing a complaint with the Board. CTHI also indicated that it is willing to provide further specific information to shippers from time to time if there is an issue that appears timely.

CTHI expressed the view that it does not need further regulation or involvement by the Board and that a directive from the Board of this nature is not required, nor is it appropriate for a Group 2 pipeline. CTHI maintained that the spirit of the Board's Memorandum of Guidance for the Regulation of Group 2 Companies (Memorandum of Guidance) is that parties should avoid regulatory involvement as much as possible.

8.1.2 Position of Parties

In Abitibi's view, CTHI's annual posting of its audited financial statements does not provide shippers with the kind of information needed to respond to and anticipate changes in their gas transportation costs. Abitibi submitted that CTHI should be required to sit down with its shippers upon receipt of the Board's decision in order to develop a set of annual information that CTHI would be required to file with the Board and provide to shippers. The information should provide more detailed information about incurred costs than are found in financial statements, provide shippers with accurate forecasts of anticipated costs, enable shippers to assess the reasonableness of costs incurred, and allow shippers to anticipate and assess potential changes in tolls. In addition, given the start of a major pipeline integrity management process, the annual filing should contain information on pipeline integrity management plans. Abitibi recommended that the Board direct CTHI to develop such an annual filing package in consultation with shippers no later than 30 June 2006.

In Boise's view, putting shippers in the position where they have to file formal toll complaints with the Board to get information is not cost effective. It is also not conducive to the complaints-based form of regulation whereby the company and its customers would generally be expected to work through any differences before engaging the Board's complaint process. Boise contended that CTHI's audited financial statements do not provide sufficient information concerning the

costs that are recovered in CTHI's tolls, nor do they present information on a basis comparable to the cost of service information presented by CTHI in its Application. In Boise's submission, CTHI should be required to file an annual report with the Board similar in nature to the year-end surveillance report that Group 1 companies are required to file, but simplified as appropriate to reflect CTHI's Group 2 company status.

Boise requested that CTHI be directed to work with its customers to settle the form of the year-end report with the matter referred back to the Board for resolution if the parties are unable to come to an agreement. This year-end report would be in addition to and could incorporate the reporting information sought by Boise with respect to CTHI's Integrity Program. Boise also recommended that CTHI be required to maintain its accounts according to the account code set out in the Board's *Gas Pipeline Uniform Accounting Regulations* (GPUAR).

Views of the Board

Annual Filing Requirements

The stated objective of the Board's Memorandum of Guidance is to streamline and simplify the regulatory requirements of the NEB Act and regulations thereunder. As such, the regulation of Group 2 companies is normally carried out on a complaint basis, with a consequent reduction in financial reporting requirements. For example, the Board does not require Group 2 companies to provide periodic financial information, such as quarterly surveillance reports, for the purpose of monitoring the financial performance of these companies.

As indicated in the Memorandum of Guidance "[i]t is the responsibility of Group 2 companies to provide its shippers and interested parties with sufficient information to enable them to determine whether a complaint is warranted." This helps minimize regulatory costs for Group 2 companies while providing the flexibility for parties to work together to resolve differences as an alternative to adjudication by the Board.

In order for this process to work, there must be timely and effective communication between a Group 2 company and its shippers. Only then may complaints-based regulation function effectively and efficiently.

The Board would prefer not to see CTHI become an exception to the way NEB regulated Group 2 companies are treated, and is encouraged by CTHI's commitment and desire to consult with its shippers to develop a suitable annual information package and shippers' stated willingness to participate in such a process. The Board notes that the following issues have been matters of contention between the parties:

- the form and content of the financial information on cost of service and rate base to be provided by CTHI to its shippers;

- the costs and evolution of the CTHI Pipeline Integrity Management Program;
- the operation of the Compressor fuel deferral account including the frequency of clearing the balance and the rate design and carrying charge implications;
- the optimization of CTHI's gas transportation costs; and
- the possibility and implications of shipper supplied fuel.

The Board also notes that CTHI is willing to provide its shippers with further specific information on issues on an as required basis. As a result, the Board is persuaded that CTHI will be able to work with its shippers and develop a suitable information package that will meet the needs of all parties. The Board remains available as an adjudicator if required by the parties.

GPUAR

The Board's Memorandum of Guidance exempts all Group 2 companies from the requirement to keep their books of account pursuant to the code of accounts prescribed in the GPUAR. Group 2 companies are required to maintain separate books of account in Canada in accordance with generally-accepted accounting principles and file audited financial statements within 120 days after the end of each fiscal year. Such statements should provide details of revenue and costs associated with the regulated pipeline.

Subsection 5(2) of the GPUAR provides that Group 2 companies are exempt from complying with the GPUAR except in respect of specific requirements related to the filing of annual financial statements and a company's books of account. Accordingly, as a Group 2 company, the Board is of the view that CTHI presently complies with the GPUAR.

Although not easily reconcilable with its cost of service schedules provided in this hearing, the Board considers CTHI's financial statements to be in compliance with the Board's requirements.

Decision

CTHI is directed to forthwith initiate a discussion process with its shippers to address shipper concerns, including those noted above, and to develop an acceptable information package.

Chapter 9

Tolling Issues

9.1 Effective Date of Toll Increase

In its initial filing dated 5 August 2005, CTHI requested that its proposed tolls be made effective 1 August 2005. However, in reply comments filed with the Board on 21 October 2005, and in response to a Board information request, CTHI requested that its proposed tolls be made effective 9 September 2005, the same date its existing tolls were made interim by the Board in Order TGI-01-2005.

9.2 Difference between Interim and Final Tolls

CTHI proposed that the settlement and payment of any adjustment amounts from the interim tolls be billed to the shippers or refunded by CTHI to shippers in the first monthly billing period following the issuance of the Board's Decision and Order in the proceeding.

No parties objected to this procedure.

Decision

The Board directs that CTHI's tolls resulting from the decisions contained within these Reasons for Decision be made effective 9 September 2005.

CTHI shall forthwith prepare and submit to the Board for final approval, revised schedules and final toll calculations, including shipper-specific surcharges and supporting calculations, based on these Reasons for Decision.

Any variance between the approved tolls and amounts collected pursuant to interim tolls approved by Order TGI-1-2005 shall be recovered in the first monthly billing period following the Board's final approval of CTHI's tolls for the 2005 Test Year.

Chapter 10

Disposition

The foregoing chapters and Order TG-03-2006 constitute our Decision and Reasons for Decision in respect of CTHI's Tolls Application and all matters heard by the Board in the RHW-3-2005 proceeding.

Deborah Emes

D.W. Emes
Presiding Member

J.S. Bulger
Member

Calgary, Alberta
March 2006

Appendix I

Order TG-03-2006

IN THE MATTER OF the *National Energy Board Act* (Act) and the regulations made thereunder;

IN THE MATTER OF an application, dated 5 August 2005, filed with the National Energy Board (Board) by Centra Transmission Holdings Inc. (CTHI) under File ATT AFT CTH 001 / 4200-C293-1 for approval of tolls pursuant to Part IV of the Act that CTHI shall charge for transportation services provided on its pipeline effective 1 August 2005 (Application); and

IN THE MATTER OF Hearing Order RHW-3-2005.

BEFORE the Board on 15 March 2006.

WHEREAS the Board issued Order TGI-01-2005 setting CTHI's existing tolls as interim effective 9 September 2005;

AND WHEREAS on 25 November 2005, the Board issued Hearing Order RHW-3-2005 setting out the procedures to be followed in the hearing;

AND WHEREAS no intervenor submitted written evidence, in accordance with paragraphs 19 and 21 of the Hearing Order, final argument in respect of the RHW-3-2005 proceeding was heard orally by teleconference on 26 January 2006;

AND WHEREAS at that time CTHI requested that the Board keep the evidentiary record open in order to enable CTHI to file revised information with respect to a renegotiated Union gas management contract;

AND WHEREAS on 1 February 2006, in order to ensure it had a proper evidentiary basis upon which to make its decisions, the Board submitted a further information request to CTHI and placed a copy of CTHI's 1992 Test Year application, dated 16 December 1991, on the evidentiary record and provided procedural direction regarding the opportunity for parties to supplement their argument in light of the additional evidence expected to be filed by CTHI on the compressor fuel cost and Union gas management contract matters;

AND WHEREAS the Board has considered the evidence and submissions, and has found that the tolls that will result from the decisions set out in its RHW-3-2005 Reasons for Decision and in this Order are just and reasonable, and will not result in unjust discrimination in tolls, service or facilities;

THEREFORE, IT IS ORDERED, pursuant to Part IV of the Act, that:

1. CTHI shall, for accounting, toll-making and tariff purposes, implement the decisions outlined in the RHW-3-2005 Reasons for Decision dated March 2006 and in this Order.

2. CTHI shall forthwith prepare and file with the Board for final approval revised schedules and final toll calculations, including shipper-specific surcharges and supporting calculations, based on the RHW-3-2005 Decision.

3. Any variance between the approved tolls and amounts collected pursuant to interim tolls approved by Order TGI-1-2005 shall be recovered in the first monthly billing period following the Board's final approval of CTHI's tolls for the 2005 Test Year.

NATIONAL ENERGY BOARD

Michel L. Mantha
Secretary